

## Energy pricing: we do the sums

Also:

Spreading the load: energy supply under pressure

National Consumer Conference and Roundtable update

Water prices and disadvantaged consumers

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CUAC is an independent consumer advocacy organisation which ensures the interests of Victorian electricity, gas and water consumers—especially low income, disadvantaged, rural and regional, and Indigenous consumers—are effectively represented in the policy and regulatory debate.

CUAC believes all Victorians have a right to:

- ♦ affordable and sustainable electricity, gas and water
- ♦ have their interests heard in policy and regulatory decisions on electricity, gas and water
- ♦ not be disconnected from electricity, gas and/or water due solely to an inability to pay

CUAC:

- ♦ Provides a voice for, and strengthens the input of Victorian utility consumers—particularly low income, disadvantaged, and rural and regional consumers—in the policy and regulatory debate
- ♦ Initiates and supports research into issues of concern to Victorian utility consumers, through in-house research and building the capacity of consumers through its Grants program
- ♦ Investigates and responds to systemic issues affecting Victorian consumers in the competitive electricity and gas markets and with regard to water.

# Retail price deregulation – what's on offer now?

By May Johnston  
CUAC Senior Policy Officer (see pg.10)

**On 1 January 2009, the Victorian Government's decision to remove energy retail price regulation took effect. At the same time the obligation on retailers to publish standing and market offers on the Essential Services Commission's (ESC) website became mandatory, making it easier for consumers to compare energy offers.**

CUAC has conducted a detailed analysis of the electricity offers<sup>i</sup> listed on the ESC's website and some of our key observations are: that the size of the fixed charge component varies significantly between retailers within the same network area; that there is an extensive use of discounts for bills paid on time; that the use of Early Termination Fees (ETFs) are common to the market offers; that the price difference between most retailers' standing offer and published market offers is relatively small; and that substantial savings can be made from switching and choosing the right retailer.

## Fixed charges

Customers comparing market offers in SP Ausnet's distribution area should pay especially close attention to the fixed charge component. Our analysis shows an \$86 per annum difference in the fixed charge between the market offer listed by Energy Australia, with the lowest fixed charge, and the market offer listed by Victoria Electricity, which has the highest.<sup>ii</sup>

The differences between the fixed charge on market offers in the other network areas were less significant. In United Energy's area the difference between the highest and lowest fixed charge was only \$34 per annum. Victoria Electricity was consistently the retailer with the highest fixed charges on market offers across all distribution areas. Energy Australia, on the other hand, typically had the offers with the lowest fixed charge.

On average, the standing offers in each distribution area have a higher fixed charge component than the market offers listed on the ESC's website.

The tables overleaf show the average fixed charge for both standing and market offers within each of the five distribution areas. (See next page)

## Discounts for payment on time

Several of the retailers have listed market offers with discounts for bills paid on time. While we prefer to see incentive based measures to punitive arrangements, we would be concerned if discounts for paying on time become the only way consumers can save on their energy bills.



Naturally, customers on fixed and/or low income face cash flow problems more often than high income earners, and are therefore less likely to benefit from such features. Furthermore, some of the retailers make these discounts conditional upon payment methods such as direct debit and internet billing. Customers with cash flow problems, however, will naturally be reluctant to sign on to offers that require them to pay by direct debit. In fact, customers would often be ill advised to do so, as the bank fees attached to direct debit arrangements can be quite high if insufficient funds are available to pay the bill. Finally, as the discounts are applied as a percentage to the total bill, high consumption households will benefit the most from payment on time incentives. In sum, these product offerings are attractive to high consumption households with a good and secure cash flow. Retailers offering discounts for bills paid on time include Australian Power and Gas, Click Energy, Neighborhood Energy, Red Energy, Simply Energy, TRU Energy and Victoria Electricity.

## Early termination fees

Many of the market offers feature Early Termination Fees (ETFs) if the customer wants or needs to terminate the contract before the proscribed period. The size of the fees and the 'lock in' period the fees apply to vary significantly from retailer to retailer. However, we have registered ETFs on electricity only contracts as high as \$80 applied to a 'lock in' period of two years (Victoria Electricity). CUAC does not believe the ETFs reflect the customer acquisition costs and we are concerned that many of the best priced offers, in terms of cost per kilowatt hour, are offers with ETFs attached to them. As most tenants would be ill advised to take up offers with ETFs, tenants are practically

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## Research

excluded from many of the best priced market offers. We therefore advocate for a ban on ETFs and if the retailers believe that a fee is an essential tool to recover customer acquisition costs, we suggest that retailers utilise sign up fees instead. At least the use of an up front sign-on fee would provide retailers with an incentive to keep the fee as low (and cost reflective) as possible.

A more positive observation is that not all of the retailers use ETFs. Amongst the market offers listed on the ESC website Click Energy, Energy Australia, Neighborhood Energy, Origin Energy and Simply Energy all shun the practice of locking customers into contracts by applying ETFs. We hope more retailers will follow suit.

### Standing vs Market offers

As expected, the retailers have applied different strategies to their standing and market offers. A retailer's

strategy depends on numerous factors, including the size of their customer base, how well 'hedged' they are, their current peak versus off-peak load and the use of discounts to ensure that payments are made on time.

Origin and TRU are both incumbent retailers with more customers than most of the others, but their pricing strategies are significantly different.<sup>iii</sup> Origin, on the one hand, has listed market offers at the same rate as their standing offers across all network areas. The only exception is market offers with a controlled load component in Jemena's network area. The fixed rate component of Origin's offers is the same for both standing and market offers within each network area. Origin does not offer any discounts for consumers paying their bills on time and their market offers do not include ETFs.

TRU Energy, on the other hand, has varied their market offers from their standing offers across all network

**Table 1-5: Fixed charges, market vs standing offers**

#### 1. Fixed charges in Citipower's network

The average fixed charge on market offers	\$167 per annum (exc GST)
The average fixed charge on standing offers	\$174 per annum (exc GST)
Victoria Electricity has the offer with highest fixed charge	\$190 per annum (exc GST)
Energy Australia has the offer with the lowest fixed charge	\$155 per annum (exc GST)

#### 2. Fixed charges in Powercor's network

The average fixed charge on market offers	\$184 per annum (exc GST)
The average fixed charge on standing offers	\$189 per annum (exc GST)
Victoria Electricity has the offer with highest fixed charge	\$207 per annum (exc GST)
Energy Australia has the offer with the lowest fixed charge	\$169 per annum (exc GST)

#### 3. Fixed charges in SP Ausnet's network

The average fixed charge on market offers	\$196 per annum (exc GST)
The average fixed charge on standing offers	\$200 per annum (exc GST)
Victoria Electricity has the offer with highest fixed charge	\$250 per annum (exc GST)
Energy Australia has the offer with the lowest fixed charge	\$164 per annum (exc GST)

#### 4. Fixed charges in Jemena's network

The average fixed charge on market offers	\$160 per annum (exc GST)
The average fixed charge on standing offers	\$167 per annum (exc GST)
Victoria Electricity has the offer with highest fixed charge	\$187 per annum (exc GST)
Energy Australia has the offer with the lowest fixed charge	\$146 per annum (exc GST)

#### 5. Fixed charges in United Energy's network

The average fixed charge on market offers	\$153 per annum (exc GST)
The average fixed charge on standing offers	\$166 per annum (exc GST)
Victoria Electricity has the offer with highest fixed charge	\$176 per annum (exc GST)
Australia Power & Gas has the offer with the lowest fixed charge	\$142 per annum (exc GST)

areas. Firstly, the fixed rate component is consistently lower on market offers than on standing offers. Secondly, the cost per kWh consumed is also somewhat lower on TRU's market offers compared to its standing offers. A comparison of TRU's flat/single rate offers, for example, shows that a household consuming 5400kWh per annum would save approximately 3% (or \$30) by being on a TRU market offer rather than the TRU standing offer. In addition to that, consumers paying their bills on time would receive a further 3% discount, which means that the market offer could potentially be 6% less than the standing offer. However, TRU does apply ETFs to its market offers, meaning that any customer needing to terminate the contract earlier than stipulated could end up paying any savings accrued in fees instead.

Victoria Electricity and Neighborhood Energy have chosen to publish the same rates for market offers as for standing offers. However, unlike Origin, these two retailers offer a discount on market offers if the customer pays the bill on time. Victoria Electricity offers a 7% discount for bills paid on time but a significant ETF applies to these offers. Neighborhood Energy offers a 10% discount for bills paid on time and their offers do *not* include an ETF.

Other retailers have used similar pricing strategies by publishing market offer rates similar or the same as their



the cheaper offers. The third market offer also has a 5% discount for payment on time, with no ETF attached to it, however this offer attracts a higher cost per kWh – the same price as they apply to their standing offer.

Energy Australia is taking a no frills approach to their offers. Like Origin Energy, Energy Australia has listed market offers at the same rate as the standing offers available in the different network areas. Energy Australia does not offer discounts for bills paid on time and they do not apply ETFs to their offers.

CUAC believes consumers will benefit the most in the long term if the retailers actually compete on price (fixed charges as well as cost per kWh consumed), rather than seeking to differentiate themselves by including incentives such as discounts for bills paid on time. As discussed

above, we are also highly opposed to the use of ETFs as these fees create a barrier to customer switching and the ability to exercise choice, as well as effectively excluding a significant proportion of customers, namely tenants, from accessing retail offers with the lowest price per kWh.

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standing offers. Simply Energy, for example, offers the same price per kWh for standing and market offers but all of their market offers have a slightly lower fixed charge. Like Neighborhood Energy, Simply Energy offers discounts for bills paid on time and does not apply ETFs.

Country Energy has taken a different approach. Like TRU, Country Energy has priced their market offers on a lower rate than their standing offers. A comparison of Country Energy's flat/single rate offers, for example, shows that Country Energy customers consuming 5400kWh per annum could typically save between \$85-100 per annum by being on a market offer rather than the standing offer. However ETFs apply to the market offers and no further discounts are offered for customers who pay their bills on time. In United Energy's distribution area, Country Energy's market offers also include seasonal tariffs. This means that the cost per kWh is slightly less during the winter months than during the summer period. These products may be of interest to households using reverse cycle air conditioners for heating purposes during the cooler months.

Australian Power and Gas has decided to publish three market offers for each meter type across all network areas. All three market offers have a different kWh price and the cheaper offers include further discounts (3% and 5%) for payment of bills on time. However, ETFs apply to both of

#### **Differences in price and savings on bills**

Not all of the retailers have yet published their market offers on the ESC website, but our preliminary analysis shows that Energy Australia's no frills offer is amongst the most competitive on price. We are pleased to note that there are some competitive offers available that do not discriminate against tenants or consumers with low income or cash flow problems. It is, however, important that we continue to monitor these developments as there is a significant use of discounts for payment of bills on time and a strong presence of ETFs on the better priced offers.

While the differences between the annual bills in Table 6 may not seem vast, this does indicate that higher consumption households may be able to make substantial savings by choosing the right retailer.<sup>iv</sup> An indicative annual bill for a household using 9800kWh on a flat/single rate tariff on Origin's published market offer (in Citipower's network area) would be \$1,750 while the same household would have paid \$1,600 if it had signed up with Energy Australia's published market offer instead. That is a straightforward saving of \$150 per annum by choosing one retailer over another, as neither Origin nor Energy Australia operate with incentives such as discounts for payments on time or penalties such as ETFs.

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Indicative Annual Bill	Retailer	Early Termination Fee	Additional discounts for payment on time
\$933	Energy Australia	no	no
\$933	Energy Australia	no	no
\$934	Jackgreen	no	no
\$942	Aus P&G	yes	yes up to 5%
\$943	TRU	yes	yes up to 3%
\$953	Country Energy	yes	no
\$958	Aus P&G	yes	yes up to 3%
\$972	TRU	no	no
\$982	Aus P&G	no	no
\$982	Aus P&G	no	yes up to 5%
\$985	Neighborhood Energy	no	yes up to 10%
\$985	Neighborhood Energy	no	no
\$986	Simply Energy	no	yes
\$988	Simply Energy	no	no
\$991	Red Energy	yes	yes up to 7%
\$995	Victoria Electricity	no	no
\$1,007	Red Energy	no	no
\$1,009	Victoria Electricity	yes	yes up to 7%
\$1,016	Click Energy	no	no
\$1,016	Click Energy	no	yes up to 7%
\$1,018	Power Direct	no	no
\$1,021	Jackgreen	yes	yes up to 7%
\$1,021	Origin	no	no
\$1,021	Origin	no	no
\$1,025	AGL	no	no
\$1,048	Country Energy	no	no
\$1,256	Momentum Energy	no	no

**Table 6:** Indicative Annual Bill for a household consuming 5400kWh per annum, on a flat/single rate tariff in Citipower’s distribution area (blue = standing offer and yellow = market offer).

**Notes**

- i. This analysis has been based on the information provided on the ESC’s website by February 2009. Please note that the following retailers’ market offers were not published then and are therefore not included in this analysis: AGL, Jackgreen (now listed), Momentum and Power Direct. In the case of Click Energy, its offers contained several mistakes (now rectified) and we therefore decided to not include them in this analysis.
- ii. Please note that the analysis of fixed charges within each network area compare charges across all meter types. As such, the average fixed charge within a specific network area is the average of the fixed charges applied to market or standing retail offers across all meter types (single rate/two rate and TOU) within that network. The retail offers with the highest and lowest fixed charge may not apply to the same meter type.
- iii. Unfortunately this analysis does not include AGL (the third incumbent) as they have not yet listed their market offers on the ESC website.
- iv. 5400kWh per annum is below the average household consumption in Victoria.

**Disclaimer**

While we have done our best to ensure that the information provided in this article is correct, the tariffs listed on the ESC’s website may contain errors and data entry mistakes could have occurred. It is not the intention of this article to produce a comparison of the offers available to Victorian consumers and it should not be read that way. Consumers wishing to compare retail offers should visit the ESC website and compare the offers listed to what they are currently paying, taking their own consumption pattern into account.

The ESC website containing all standing offers and published market offers is: [www.yourchoice.vic.gov.au](http://www.yourchoice.vic.gov.au)

# Spreading the load: energy supply under pressure

By Tosh Szatow  
CUAC Policy Officer

**The recent heatwave and fire events that swept across southern parts of Australia including Victoria raise the question - how resilient is our essential infrastructure to the worst scenarios of climate change?**

The Australian Energy Market Commission (AEMC) has been asked to review energy market frameworks in light of these events.

It is worth briefly reiterating some of the records broken. They included the most consecutive days over 43 degrees for Melbourne, most consecutive nights over 24 degrees for Mildura. Launceston, having never previously exceeded 35 degrees saw temperatures exceed 37 – much of Tasmania’s north broke daytime temperatures by two degrees. Tasmania experienced its hottest ever state temperature, breaking the previous record by around two degrees. Adelaide experienced its hottest ever overnight temperature and hottest day time temperature in 70 years.

The relevance for our energy supply system is layered. The interconnected nature of the National Electricity Market (NEM) means that failure of supply in one state can have ripple effects across other states. No where was this better highlighted than by the failure of the Basslink interconnector as temperatures exceeded 33 degrees in George Town, in the north of Tasmania, for the first time on record. Basslink control systems are designed to limit flows when temperatures exceed 33 degrees in George Town or 43 degrees in Loy Yang.

Before the heat wave, we were assured by market

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***“In reality, our energy system failed not because of supply shortfall, but because of breakdown in the transmission and distribution of power.”***

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operators NEMMCO that we had sufficient reserve supply to cope with forecast demand. The Victorian Government also assured us we had sufficient reserve capacity to handle forecast demand. But in reality, our energy system failed not because of supply shortfalls, but because of breakdown in the transmission and distribution of power.

In the aftermath of the power failures, the general conclusion by NEMMCO and Government was that the market coped as it should have, the failures were caused by extreme events and the spending required to cope with these events does not always have economic benefits. It was implied that the cost of mitigating power outages caused by the heat wave would have been prohibitive.



The combination of heat causing transmission line failure, fires affecting transmission lines, some reduced generation capacity and record electricity demand peaks may appear an unlikely confluence of events, but these types of scenarios have been contemplated by numerous reports discussing Victoria’s vulnerability to climate change. It is slightly disingenuous to suggest they were ‘freak’ events.

The most pertinent question is – what analysis has been done on the vulnerability of our energy system to projected climate change scenarios, where is the assessment of costs and where is the assessment of risk mitigation options and their potential benefits?

To give some sense of the situation that occurred, NEMMCO initially requested 350MW of load shedding in

Victoria (as Basslink failed) which was subsequently upped to 1000MW and eventually 1200MW (as transmission lines were lost). Total demand in Victoria peaked at just under 11,000MW, so roughly 10% of the States electricity demand was required for

load shedding. Therefore simplistically, a 10% reduction in baseload consumption or taking 1200MW of peak and/or discretionary load used at peak times off the network would have been sufficient to avoid rolling blackouts.

Let’s do some back of envelope analysis on the costs and benefits of taking that load off the networks – our budget being the costs imposed by the power outages.

The cost to business of power outages during the initial Melbourne heat wave from 27-30 January have been roughly estimated at \$100M. The relative increase in generation cost during that time is more difficult to

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determine because this depends on forward contracting arrangements between retailers and generators. If wholesale costs could have been passed through for the 12 hours during the heat wave in which wholesale costs exceeded \$1000MWh, generation costs would have totalled \$622M, as opposed to \$8M if prices had been around the average peak price of \$70MWh for that period. So if only 10% of demand had not been forward contracted by retailers, it would have cost users an additional \$62M.

Let's be conservative and assume we have a \$100M budget – the impact cost of blackouts to Victorian business alone. If you could find 1.4 million 50W halogen lights that run during the daytime, you could change these to 15W CFL down lights and save about 57MW of capacity<sup>i</sup>. Over their rated lifetime you save \$100 a light in running costs compared to halogens, so savings of around \$142M. At \$30t, you also save \$33M in emissions, so you've spent \$100M but nearly doubled your money - you still have around \$175M to spend!

Choosing a six star air conditioner (a/c) over a three star a/c draws 0.7kW of power instead of 1.3kW and costs \$600 more to purchase. So for \$175M you could effectively upgrade the purchase of 290,000 a/c units from three star to six star, saving 175MW of peak capacity on the system.<sup>ii</sup> Operating the average heating and cooling hours in Melbourne – 450hrs for the average 12 year operating life, would save around almost 1.23Mt CO<sub>2</sub>e, worth around \$37M in emission savings. Operating savings are around \$170M.

So we've saved 232MW and we've grown \$100M to \$207M – let's not stop there.

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***“Our energy supply system does not have the right incentive or planning framework to supply energy services in an efficient way.”***

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Fridges are an interesting market. It is possible to buy fridges with a longer warranty period, same or better specifications, for as little as \$100 more for 6 star than 3 star.<sup>iii</sup> Let's be generous and say we can upgrade the purchase of new fridges from 3 star to 6 star for \$300 a fridge. With our \$207M budget we affect the purchase of 690,000 fridges. Over a 10 year operating life, we save almost \$378M in power costs and avoided emissions, and we reduce the capacity of power being drawn by fridges by around 40%.

So we have saved well over two thirds of the initial load shedding required by NEMMCO and almost quadrupled the budget we originally had available to spend. We have not even tapped the benefits of energy efficiency in commercial buildings, identified by the Intergovernmental Panel on Climate Change (IPCC) as being the most abundant source of cost effective efficiency gains worldwide. The IPCC estimate that projected baseline emissions to 2020 can be reduced by 29% cost effectively in the residential and commercial sectors. If we start improving commercial building air conditioning efficiency,



commercial lighting systems, start insulating and/or shading homes and buildings, it is clear to see there are plenty more savings to be had, many of which provide benefits that outweigh costs.

The examples presented above are not perfect representations of the available energy or financial savings from upgrading energy consuming appliances. Exact costs and benefits depend on when an appliance is replaced, how it is used, where it is used and so on. But the examples are reasonable representations of how every day choices, made by consumers and companies involved in the provision of energy, can affect the efficiency of energy service provision.

So what does it mean to say ‘planning for the extreme events such as the heat wave that has affected southern parts of Australia late January/early February 2009 is not worth the money’? It really means, building more supply side infrastructure is not necessarily a cost effective way of either meeting growing demand, or managing the risk of supply infrastructure failing.

In a sense, it means that our energy supply system does not have the right incentive or planning framework to supply energy services in an efficient way – no energy company has an incentive to supply efficient heating or cooling services, their incentive is to deliver and sell products – electricity and/or gas.

Efficient service provision is an explicit objective of the National Electricity Market, however, until energy companies provide efficient energy services, not just a product for a price, the energy market will continue to fail to meet its objective.

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Notes

- i. Assumes total cost of replacing bulbs is \$70 (includes parts and labour)
- ii. Assumes all air conditioners would be on at peak times
- iii. 450L white enamel or stainless steel fridges of the same manufacturer. The average size of residential fridge/freezers purchased in Australia is around 400L and over 700,000 new units are bought each year - <http://www.energyrating.gov.au/library/pubs/aceee-2002a.pdf>

# National Consumer Conference

**By Jo Benvenuti**  
CUAC Executive Officer

**The National Consumer Conference held in March provided some invaluable insights into consumer issues internationally and in the Australian context.**

The Conference was hosted by South Australia's Department of Consumer Affairs. There was an impressive line up of international speakers including Nick Stace, from the UK, who is a renowned expert in consumer advocacy and policy and now CEO of Choice; Willemien Bax, Director General of BEUC, the peak consumer organisation for the European Union; and Martyn Evans, Director of Consumer Focus Scotland. Significantly, utility issues are at the very top of priority issues for consumers in the European context. Bax cited the issue of affordable energy and sustainable consumption as the number one priority for BEUC and stressed the need for consumer organisations to engage in policy debates based on research/evidence advocacy and policy recommendations including the need to assess economic impact, need and context. She also outlined their training initiative for consumer organisations "Leave your trace: training for consumer empowerment". For more on this explore the website [www.trace-beuc.org](http://www.trace-beuc.org).

Martyn Evans outlined the considerable upheaval that has followed the UK government's review of the consumer complaint and advocacy bodies, The National Consumer Council, Postwatch and Energywatch, which resulted in their merger and the separation of the complaints handling and advocacy functions. He also outlined the importance of research based advocacy in order to tackle consumer issues and balance consumer interests against the power of business.

On the Australian front, the Hon Chris Bowen MP, Assistant Treasurer, Minister for Competition and Consumer Affairs and the Hon Nick Sherry, Minister for Superannuation spoke about the introduction of national consumer protection legislation, the Competition and Consumer Act (ACC) and national consumer credit legislation.

Mr Bowen argued that the consumer protection legislation is aimed at providing single consumer protection standards across Australia and providing savings for business on the basis that they will only have one set of laws to respond to. He acknowledged that the legislation is largely based on Victorian consumer law. It appears likely, however, that given that there will be joint enforcement powers, there will also be a need to develop strong relationship processes between these jurisdictions, including information exchange, complaint handling and enforcement protocols.

Peter Kell, Deputy Chair of the Australian Competition and Consumer Commission (ACCC) outlined commensurate increases to its powers, citing new protection and en-

forcement powers including substantiation powers and the ability to seek court outcomes including compensation. These changes also include the introduction of civil penalties, banning orders to restrict activities, a greater capacity to address systemic unfair contract terms, public warning powers, and powers to undertake representative actions. CUAC will be reviewing these proposed laws to ensure that Victorian customers are not disadvantaged as the National Energy Customer Framework will include reference to the CCA for customer protection in key areas such as unfair contracts and marketing.

Mr Sherry said changes to credit legislation were aimed at establishing fair, balanced and nationally consistent consumer law. The Australian Securities and Investment Commission will also be provided with extra powers and funds and have the responsibility to provide guides for consumers.

Martin Lewis, a popular consumer advocate in the UK also outlined some trends in consumer empowerment using web technology, appropriately via a satellite hook up. He comes across as the "Jamie Oliver" of consumer credit. I am not quite sure what to think of his approach, but it may be worth a visit to his website to explore this for yourself, on [moneysavingexperts.com](http://moneysavingexperts.com). It is not a tool for empowering the disadvantaged consumer, however, there may be some learning in the approach.

In summary, the big ticket take away items were:

- ◆ Utility issues are high on the European consumer agenda, indicating these issues will also remain at the forefront in Victoria following deregulation.
- ◆ Victorian consumer standards continue to set the benchmark for the development of national consumer law in Australia. This is in part a testament to consumer advocacy in this state.
- ◆ CUAC's model of consumer advocacy, based on research and analysis is recognised internationally for its importance and effectiveness in providing consumer protection together with the protections afforded by complaint handling and enforcement bodies.



# Water must stay affordable

By Anita Lumbus  
CUAC Policy Officer

**CUAC and the Consumer Action Law Centre have argued strongly that low income consumers be protected, in response to proposals before the Essential Services Commission that would see Melbourne water prices nearly double in the next four years.**

The Essential Services Commission (ESC) is currently undertaking a review of water prices for metropolitan Melbourne for the next four year regulatory period, beginning 1 July 2009. In December 2008 the ESC released an issues paper for public comment which summarised the plans of the Melbourne water businesses and pricing structures.

CUAC partnered with the Consumer Action Law Centre (Consumer Action) to respond to the issues paper. The CUAC and Consumer Action submission calls for the ESC to adopt a number of pricing and customer protection principles, underpinned by the understanding that access to water is a basic human right and should be affordable for all classes of customers. CUAC and Consumer Action gave a presentation on the submission to the Essential Services Commission, water businesses, consumer groups and other stakeholders at a Stakeholder Forum held on 5 March.

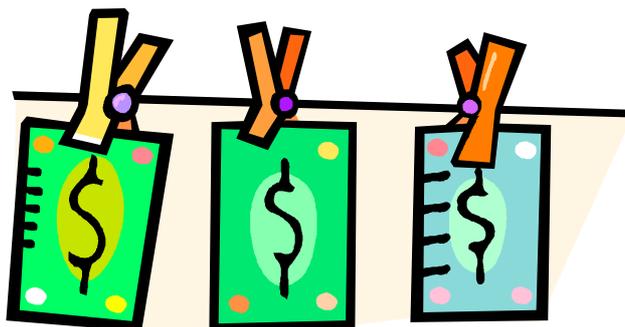
A key element of the CUAC/Consumer Action submission is a focus on the potential impacts of the price increases at a time when consumers are vulnerable to the consequences of worsening economic conditions. It is predicted that with the deepening global recession, unemployment could double in Australia over the next 18 months. Re-

***“Once prices have been approved over a regulatory period, customers are locked into those prices whether or not this capital expenditure occurs.”***

search by the Australian Council of Social Services (ACOSS) found that unemployed people and sole parents face a much higher risk of financial hardship than most other groups in the community. The study found that 57 per cent of recipients on Parenting Allowance and 28 per cent of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12 per cent of all Australians. CUAC and Consumer Action stress that the near doubling of water prices will impose a significant burden on consumers, particularly households on low or fixed incomes, at a time when budgets are already under increased stress.

Victorians have experienced increasing water costs in recent years, with the 2007 Victorian Utility Consumption Survey highlighting that the average amount of a water bill in 2007 was \$516, representing a growth of 17 per cent from the 2001 average of \$442. This was despite a 22 per cent fall in water consumption. Paradoxically, reduced demand was cited by the ESC as a contributor to price increases in the next regulatory period.

In addition to reduced demand, other contributors to the



price increases identified by the ESC included the desalination plant, other capital investments, the north-south pipeline and the higher average cost of capital. While CUAC and Consumer Action acknowledge that price increases will need to occur, the proposed capital works expenditure must be prudent and efficient. For instance, customers will have to pay for the desalination plant, but it is still very unclear what amount of revenue will be required and how expenditure should be treated. Only efficient expenditure should be allowed, particularly given this is one of the principal reasons behind large proposed price increases.

There is also concern about whether the water businesses will be able to deliver all the capital projects they have proposed in their business plans during the next regulatory period. The ESC has noted that actual expenditure for large capital programs in 2007-08 was ‘well under forecast levels.’ However, once prices have been approved over a regulatory period, customers are locked into those prices

whether or not this capital expenditure occurs.

It was highlighted in the joint submission that one of the retailers, City West Water, may have included expenditure for the same project in two separate pricing reviews.

CUAC and Consumer Action have requested that the ESC examine this further. It is the position of CUAC and Consumer Action that any costs which are over-recovered be redistributed to customers in the next price determination period.

CUAC and Consumer Action propose that a smoother price path be adopted. The suggested price paths involve a larger initial price increase, followed by a reduction in the level of price increases over the following years. This would result in an unnecessary price shock for consumers in the first year, when drought and water restrictions are still in place. The average cost of water over the regulatory period should instead be applied to avoid price shocks.

Fixed costs should be lower than water usage costs to give low income households more capability to control aspects of their bill based upon consumption. Fixed charges should be set at a higher level for major water users than for residential users. This would appropriately reflect the different ability of each of these customer classes to manage water prices and the risk of price increases.

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## Risk to competition

**CUAC has called on the Australian Energy Market Commission (AEMC) to acknowledge the importance of the customer protection framework, and to consider the risk to effective competition posed by wholesale gas and electricity price uncertainty, in a submission broadly endorsed by community agencies.**

The submission, submitted in February this year in response to the AEMC's *Review of energy market design in light of CPRS and MRET: First Interim report*, was endorsed by Victorian Council of Social Service, Australian Council of Social Service, Consumer Action Law Centre, Alternative Technology Association, St Vincent de Paul Society, and the Public Interest Advocacy Centre.

CUAC outlines the potential for competitive market discipline to be eroded or gamed at both wholesale and retail levels as the impact of the Carbon Pollution Reduction Scheme (CPRS) and the expanded Renewable Energy Target (RET) is felt.

The submission argues that the AEMC has generally failed to address the potential for competition to be undermined at wholesale or retail levels despite the concerns expressed by consumer groups and consultant reports.

The AEMC has also not acknowledged the impact of the consumer protection framework on the behaviour of energy market participants despite repeated concerns expressed by consumer groups on this issue.

Against a backdrop of wholesale price volatility and uncertainty, retail price deregulation in Victoria, impending retail price deregulation in South Australia and mounting pressure on retail price deregulation across other NEM regions, the potential for market consolidation and subsequent abuse of market power at the retail level will be ripe.

The AEMC is expecting to hold a public consultation in April 2009, and the final findings will be published in June 2009.

For further details go to [www.aemc.gov.au](http://www.aemc.gov.au)

## DMIS

CUAC has outlined concerns about the Australian Energy Regulator's proposed Demand Management Incentive Scheme (DMIS) in a recent submission.

A range of organisations and programs already exist both locally and abroad that are involved with developing and testing products and systems to allow better utilisation of network assets through DM. The AER can already access data and information at little or no cost, to test and challenge the efficiency of planned DB spending. The submission makes the case that is not unreasonable for Distribution Businesses (DBs) to incur minor costs in the pursuit of significant benefits, particularly when efficient network expansion, including efficient discovery and use of non network alternatives, is a regulatory requirement of DBs.

It is essential that the AER, through regulation and its enforcement of regulatory requirements, shapes a culture in DBs that values DM alongside traditional network solutions.

## Connection costs

CUAC has provided a detailed response to the Standing Committee of Officials (SCO): National Frameworks for Electricity Distribution Network Planning, Connection and Connection Charge arrangement.

Previous research conducted by CUAC highlights that it is essential the connection process for all customers is easy to understand, fair, transparent and subject to enforceable timeframes. Equally, costs and benefits attributable to a new connection need to be shared in a way which encourages efficient new connection, but which does not unfairly lock out new connection applicants. In general, the connection process must complement broader policy objectives such as reducing greenhouse gas emissions at least cost.

We do not believe the SCO response adequately defines an efficient cost sharing mechanism for new connections, and suggest this is included in further work to be done by the Australian Energy Market Commission (AEMC) on this matter.

**All CUAC public submissions can be view on the CUAC website:[www.cuac.org.au](http://www.cuac.org.au)**

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CUAC and Consumer Action argue that the water businesses did not adequately address the impact of pricing on vulnerable and low income customers in their water plans. As Australia faces difficult economic circumstances during this pricing period, hardship will become a greater issue. It is an inherent obligation of water businesses to ensure that during this period all customers can afford this essential service. Water businesses must take active steps to ensure comprehensive, well resourced hardship programs to manage customer impact.

Water businesses also need to ensure customers are made aware of the proposed price increases and options available to them if they are unable to pay their bills. Water businesses must implement information campaigns which provide customers with timely and due notice of pricing impacts and hardship programs. The information should be suitably communicated and adapted for different groups.

Guaranteed Service Levels (GSL) schemes are currently in place, which provide some redress to customers receiving poor service, and, as a corollary, incentives for businesses to improve their services. GSL payment levels should be increased, otherwise they will lose their relativity over the period. CUAC and Consumer Action suggest that a GSL payment could be introduced in relation to water businesses' hardship policies. A payment could be made when a customer is not treated in accordance with a hardship policy, for example, disconnecting a customer when they are participating in a hardship assistance scheme. Such a payment would encourage compliance with the provisions of hardship policies.

The ESC is to assess and report on its view of water businesses' plans in a Draft Decision, to be released in early April for further public comment. To read the joint CUAC and Consumer Action submission go to the CUAC website, [www.cuac.org.au](http://www.cuac.org.au).

### Farewell May...



CUAC is saying another sad farewell, this time to Senior Policy Officer May Johnston. May has resigned from CUAC to undertake a project reviewing the consumer protection frameworks across the National Electricity Market in light of a smart meter roll out. The project is an initiative of the St Vincent de Paul National Council and is funded through the National Advocacy Panel. May has been with CUAC since 2002, almost since its inception, and in her seven years has become a recognised authority of a range of utilities issues, particularly around metering and pricing.

She was involved in significant CUAC initiatives such as setting up the original Rural and Regional Network and Grants program, and the restructuring of the CUAC Reference Group. She is well known to many of you through her representation of CUAC in a wide range of activities, networks and committees.

We are sorry to lose May, but pleased that her expertise will still be available to the sector, albeit in a different role, and we wish her well in her new position.

CUAC is in the process of appointing a new Senior Policy Officer.

### ...and welcome Anita

We are delighted to welcome Anita Lumbus to CUAC as our new Policy Officer.

Anita has made the move from Perth, where she has had an impressive record of research and advocacy. Her previous experience encompasses organisations such as the Research Centre for Stronger Communities at Curtin University, and the Ethnic Disability Advocacy Centre. She also has a strong record of voluntary work including teaching English to Burmese refugees in Thailand and producing publications for Oxfam.

Amongst her duties at CUAC Anita will be taking on the challenging portfolio of water issues, as well as managing the Grants program, and undertaking visits to regional areas.

Please make her welcome to Melbourne and to the sector.



### Notes from the National Consumer Roundtable on Energy

**By Jo Benvenuti**  
CUAC Executive Officer

This National Consumers Roundtable on Energy held in March focussed on recent developments in the National Energy Market. Highlights included dialogue with the Australian Energy Market Commission (AEMC) Chairman, Dr. John Tamblyn, and Senior Director, Colin Sausman. They presented on the AEMC's major reviews both current and prospective, including: climate change policies and energy market frameworks; framework for reliability in light of the Victorian and South Australian January heat wave; barriers to efficient demand side response; use of total factor productivity for network economic regulation; hedging contracts and efficient NEM prudential costs; retail competition and price negotiation

Discussion focussed on the AEMC process for engaging consumers in its processes and Dr. Tamblyn acknowledged the difficulties in setting up a national process that takes account of the geographical differences, the range of interest groups and access to remote groups such as farming communities and aboriginal groups. On the consumer side, the suggestion was made that the AEMC provide better

feedback in its decision papers as to the reasons it has accepted or rejected the suggestions put forward in submissions by consumer advocates and that the AEMC consider the balance of industry and consumer representation in its consultative processes. While there was no final agreement on the model for consultation, the AEMC agreed to further talks with the Roundtable to develop appropriate consultation mechanisms.

Brendan Morling, Head of Division Energy and Environment, Department of Resources, Energy and Tourism (DRET) spoke about the importance of the National Energy Customer Framework (NECF) to the Minister for Energy, the Hon Martin Ferguson, and noted the frustrations of consumer advocates regarding

delays to its finalisation. Rhonda Andrieux, the Legal Project Manager DRET gave a detailed presentation. It is clear from this that there are a number of fundamental consumer issues that have been changed or 'lost in translation' over time and CUAC will be working to ensure that these details are addressed in its submissions.

Other major topics included Smart Meters and the Energy White Paper.

If you are interested in any of these topics please contact Jo Benvenuti or Tosh Szatow at CUAC.

